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January 19, 2001

HAND DELIVERY

Mr. David McClanahan
Utility Consultant, Energy and Water Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Special Contract for Tennessee-American Water Company to provide water for
Ft. Oglethorpe: TRA Docket No. 00-01124

Dear Mr. McClanahan:

My partner, Ted Pappas, asked me to respond to your letter to him of January 8, 2001 concerning the captioned contract.

Based on our discussions with officers of Tennessee-American Water Company (the "Company"), set forth below are our responses, on behalf of the Company, to the questions you posed in your January 8 letter regarding the captioned contract (the "Contract"):

1. Provide the monthly consumption of Fort Oglethorpe for the year of 2000.

<u>Water Sales (1,000 Gallons)</u>	
January	25,382
February	25,778
March	37,644
April	26,517
May	26,556
June	28,750
July	31,078
August	31,680
September	32,800
October	29,479
November	27,536
December	29,957
Total	<u>353,157</u>

2. To your knowledge, is Fort Oglethorpe planning to resell water to a third party? If so, to whom?

The Company does not know of any plans by Fort Oglethorpe to sell water to any third parties, other than to Fort Oglethorpe's retail customers.

3. Fort Oglethorpe has agreed to purchase a minimum of 273,750,000 gallons of water annually or 22,812,500 gallons a month. Water in excess of 35,000,000 gallons a month will be at a different rate. Assuming that the 23 million gallons would normally meet the City's needs, explain why the City might need 50% more water than it normally uses.

The Company understands that Fort Oglethorpe wants the Contract to accommodate future population growth.

4A. Provide an estimate of the revenues and expenses associated with the scheduled service work.

The Company will provide the services described in Schedule A to the Contract, from time to time, upon Fort Oglethorpe's request. Because the Company will control neither the frequency nor the extent of Fort Oglethorpe's requests, it is impossible for the Company to estimate either the revenues that it will derive from the provision of such services or the expenses it will incur in connection with the provision of such services.

4B. Did the Company offer to provide a schedule of fees, or did the City of Fort Oglethorpe ask for a schedule of services and costs?

The City of Fort Oglethorpe requested a schedule of fees.

5A. Provide a detailed explanation of how the service work is to be performed.

When Fort Oglethorpe requests service work, the Company and Fort Oglethorpe will arrange a mutually agreeable date and time for such services to be performed. Regular employees of the Company will perform the services at such time and, upon completion, the Company will bill Fort Oglethorpe at the scheduled rates.

5B. Is the Company going to perform these functions sporadically, much as a sub-contractor would, or are they going to manage the water system for Fort Oglethorpe?

These functions will be performed sporadically, as a sub-contractor would perform and at the request of Fort Oglethorpe.

5C. If the Company were going to manage the water system, why would the customers not pay the normal tarified rates?

The proposal is not to manage the water system of Fort Oglethorpe.

6. If Tennessee-American will be performing this work only as a sub-contractor, provide a detailed analysis of how these rates were determined. Explain how the costs were estimated including Salaries and Wages, Materials and Supplies, and Overhead. Provide an explanation of what is included in Overhead and how it will be allocated.

The Company determined the rates set forth on Schedule A to the Contract (other than the rate for monthly billing services) by estimating the Company's per hour cost of performing each service and adding a reasonable profit. Specifically, the Company followed the following procedure in determining the per hour charges for each of the services listed on Schedule A (other than monthly billing services).

- A. The Company estimated the total number of hours required for Company employees and/or supervisors to perform the particular service for Fort Oglethorpe for an entire year, and calculated the total direct labor costs for such hours (number of hours times hourly wages).
- B. The Company multiplied the amount determined in A. by 1.5575 in order to include the Company's indirect labor costs, such as pensions, insurance and taxes, estimated at 55.75% of direct labor costs.
- C. In order to account for general and administrative expense, the Company multiplied the amount determined in B. by 1.067 (based on Company's determination that senior staff's ratio of labor to total Company labor was 6.7%).
- D. The Company also estimated mileage expense (estimated miles traveled times \$.38) where appropriate.
- E. The Company multiplied the sum of the amounts determined in C. and D. by 1.15 to build in a 15% return to the Company.
- F. Finally, the Company divided the amount determined in E. by the estimated number of annual hours required for that service to arrive at the scheduled hourly rate.

The charge for monthly billing services was based on the TRA's tariff rate for sewer services.

7. **Explain how this service work will be accounted for in the ledger, in order to keep the revenue and costs associated with the service work separate from expenses paid by the ratepayers.**

All expenses and revenues associated with this service work will be charged to specific account numbers for the contract with Fort Oglethorpe other than our normal routine account numbers. In this manner the Company will be able to track all revenues and costs for analysis purposes and also for future reference.

8. **Has Tennessee-American been performing service work for anyone else on a sub-contract basis under a "Special Contract?"**

No

Please call me or Bill L'Ecuyer (423-755-9307) of Tennessee-American if you have additional questions.

Very truly yours,



George H. Masterson

GHM/ch

Enclosures

cc: William F. L'Ecuyer
Herbert A. Miller, Jr., Esq.
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